

Section **8**

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**School Food  
Authority Fund  
Operating  
Procedures**

## **Section 8: School Food Authority Fund - Operating Procedures**

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### **Title 1, General Rules and Regulations**

#### **Application**

All procedures in this Manual apply to the operation of the school food authority fund except where this section may conflict with other procedures in the Manual.

#### **Petty Cash and Change Accounts**

A predetermined amount of cash may be set aside as a “change account” for the purpose of making change in the cash collecting operation only. A petty cash account is not allowed in the school food authority fund. The change account shall be reconciled each day. Only the exact predetermined amount of change shall be withheld from each day’s deposit. (**NOTE:** The change account cannot be used to balance overages and shortages in collections.)

#### **Utilization of School Food Authority Fund Money**

Income accruing to the school food authority fund in any school, including interest earned on school food authority accounts, shall be used only for school food authority fund purposes. Such income shall **not** be used to purchase land, to acquire or construct buildings.

#### **Vending Machines – Fund Raising**

Vending machines operated by the School Nutrition Program and fund raising for the benefit of the School Nutrition Program will follow rules established by federal, state, and local rules and regulations.

#### **Banquets and Special Functions**

A formal contract document should be developed for use by the director of schools and/or board of education in authorizing banquets and special functions. School food authority fund money and commodities from the U.S. Department of Agriculture (USDA) must not be used to subsidize these activities. The contract must include the amount to be paid by the requesting organization to cover all costs of the function. The itemized costs on the contract should include food, nonfood supplies, food inventory used, nonfood supplies inventory used, labor, fringe benefits, utilities and any other itemized expenses incurred. Regulations require that a school system have documentation that the funds received by the school food authority for the banquets and special function cover all costs.

The school food authority must have complete documentation. The cost of nonfood supplies and foods in inventory (other than USDA commodities) could be determined with an issue record. These issue records, along with invoices, time sheets, allocation summaries for utilities, and documentation for other costs should be filed with each record of payment and contract. Other charges for facilities, use of facilities and equipment, damage deposit, etc. may or may not be included. If the cost for the special function includes a profit, the local board should decide its disposition. The school food authority fund must be reimbursed for all costs.

When the school food authority is centralized, the scheduling and all accountability procedures required for banquets and special functions are the responsibility of the centralized school food authority staff.

In a non-centralized school food authority, all accountability procedures required for banquets and special functions are the responsibility of the cafeteria manager and the principal. Payments for services to cafeteria employees who cater such affairs must be channeled through the individual's payroll records and are subject to all necessary withholdings. Authorization of the function by the director of schools and/or the board of education constitutes authorization for such payments.

### **Centralization**

A fully centralized school food authority is one in which the central office staff has day-to-day control over the following areas:

- a) Fiscal Management
- b) Procurement of Goods and Services
- c) Personnel
- d) Menu Planning

### **Separate Accounting Required**

Separate accounting records must be maintained for all school food authority funds and should include the same accounting records as described in the accounting and reporting section. Many of the activities of a cafeteria are similar to or would require similar documentation as addressed in previous sections of this Manual. These include ticket sales, cash register use, overall controls, teacher/other collections, collection logs, expenditures, etc.

### **Indirect Cost**

Indirect costs may be included for each program in a Claim for Reimbursement only through the application of an indirect cost rate. The school food authority's indirect cost

rate is established by the Tennessee Department of Education. Local education agencies can recover indirect costs only from the reserve fund that exceeds three (3) months operating expenses.

### **Charges**

If charges are allowed, the local education agency must have a board approved charge policy. Uncollected charges must be recouped from other than school Nutrition Program funds.

### **State Matching Funds**

State Matching Funds must be used solely in the School Nutrition Program. Ten percent of the State Matching Funds shall be applied to the costs of one or more of the following:

1. employment of a certified school food service supervisor.
2. employment of cafeteria managers or assistant managers accredited by the Tennessee School Food Service Association or working toward such accreditation.
3. Professional training programs for non-accredited personnel.

### **Retention of Records**

School Nutrition Records must be retained for a period of three years after submission of the final claim for reimbursement for the fiscal year. If audit findings have not been resolved, the records shall be retained beyond the 3-year period as long as required for the resolution of the issues raised by the audit.

### **Financial Statements and Schedules**

The school food authority financial statements are prepared in accordance with the reporting standards established by the Governmental Accounting Standards Board. See section 7-6, "Illustrative Financial statements and Schedules", which addresses certain basic reporting requirements that also apply to the School Food Authority Funds.

Exhibit 1

**Typical School System - School Food Authority Funds  
Individual Balance Sheets - All Schools  
June 30, 20x2**

	<u>Central High School</u>	<u>Central Middle School</u>	<u>City Elementary</u>
<b>ASSETS</b>			
Cash on Hand	\$28	\$50	\$-
Cash in Bank - Checking	17,601	12,514	10,902
Cash in Bank - Savings	10,000	15,000	5,000
USDA Receivable	6,600	6,263	2,285
Inventory	1,803	2,284	1,856
Due From	-	-	-
Other Assets	353	-	-
<b>Total Assets</b>	<b>\$36,385</b>	<b>\$36,111</b>	<b>\$20,043</b>
<b>LIABILITES AND FUND BALANCE</b>			
Liabilities:			
Accounts Payable	\$-	\$115	\$-
Other Liabilities	230	-	-
Due To	-	-	-
<b>Total Liabilities</b>	<b>\$230</b>	<b>\$115</b>	<b>\$-</b>
Fund Balance:			
Reserved for Inventory	1,803	2,284	1,856
Unreserved	34,352	33,712	18,187
<b>Total Fund Balance</b>	<b>\$36,155</b>	<b>\$35,996</b>	<b>\$20,043</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$36,385</b>	<b>\$36,111</b>	<b>\$20,043</b>

The notes to the financial statements are an integral part of this statement.

Exhibit 2

**Typical School System - School Food Authority Funds  
Individual Statements of Revenues, Expenditures, and  
Changes in Fund Balances - All Schools  
For the Year Ended June 30, 20x2**

	<u>Central High School</u>	<u>Central Middle School</u>	<u>City Elementary</u>
Fund Balance, July 1, 20X1	\$39,353	\$56,035	\$27,355
Prior Period Adjustments (See Note 3)	536	-	-
Adjusted Fund Balance, July 1, 20X1	<u>\$39,889</u>	<u>\$56,035</u>	<u>\$27,355</u>
<b>Revenues:</b>			
Lunch Payments - Students	\$28,657	\$18,051	\$20,083
Lunch Payments - Adults	5,125	2,979	2,982
Breakfast Payments - Students	1,420	1,418	2,516
Breakfast Payments - Adults	208	5	297
USDA Reimbursements	90,877	88,132	41,479
Supplemental Income	2,909	2,678	26,370
Interest Income	545	608	410
All Other Income	400	25	1,334
<b>Total Revenues</b>	<u><b>\$130,141</b></u>	<u><b>\$113,896</b></u>	<u><b>\$95,471</b></u>
<b>Expenditures:</b>			
Food	\$52,763	\$48,527	\$40,118
Labor	57,795	56,028	48,506
Operations and Maintenance	2,388	4,144	3,802
Equipment	12,859	18,704	2,324
Nonfood Supplies	7,919	7,411	8,338
<b>Total Expenditures</b>	<u><b>\$133,724</b></u>	<u><b>\$134,814</b></u>	<u><b>\$103,088</b></u>
Excess (Deficiency) of Revenues Over Expenditures	(\$3,583)	(\$20,918)	(\$7,617)
Change in Reserve for Inventory	(151)	879	305
<b>Fund Balance June 30, 20X2</b>	<u><b>\$36,155</b></u>	<u><b>\$35,996</b></u>	<u><b>\$20,043</b></u>

The notes to the financial statements are an integral part of this statement.

## **Notes to the Financial Statements Typical School System for the Year Ended June 30, 20x2**

### **Note A - Summary of Significant Accounting Policies**

#### **1. Financial Reporting Entity**

This report includes only the non-centralized school food authority funds of Typical School System.

#### **2. Basis of Accounting**

The accounting and financial reporting requirements for school food authority funds are illustrated in the *Tennessee Internal School Uniform Accounting Policy Manual*, issued by the Tennessee Department of Education. The school food authority financial statements are prepared in accordance with the reporting standards established by the Governmental Accounting Standards Board.

#### **3. Measurement Focus/Basis of Accounting**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The school food authority funds use a financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Revenues are recognized when susceptible to accrual, i.e., when they become measurable and available. Management policies define available as collectible within 60 days *(change this reference as needed to reflect the school system's policy)* after the fiscal year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, if measurable.

#### **4. Fund Structure**

The school food authority fund of the individual schools is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of accounts, which are comprised of the fund's assets, liabilities, fund equity, revenues and expenditures. The financial statements consist of individual fund balance sheets and individual fund statements of revenues, expenditures and changes in fund balance presented before the notes to the financial statements.

**Notes to the Financial Statements  
Typical School System  
for the Year Ended June 30, 20x2**

**5. Inventory**

Inventories are stated at lower of cost (first-in, first-out) or market (net realizable value). Inventory items are recognized as expenditures when purchased (purchase method). Fund balances have been reserved for the amount of inventories on hand at year-end. Donated inventory from USDA (commodities) is not recorded in the school food authority fund in accordance with generally accepted accounting principles.

Because the cafeteria utilizes the single inventory method for all inventory, whether purchased or donated, the value of ending inventory related to commodities has been estimated based on the assumption that commodities are consumed prior to the use of purchased inventory, resulting in a \$-0- balance for commodities inventory. The value of commodities received and used during the fiscal year is estimated to be \$20,977.

**Note B - Collateralization of Deposits**

Cash in bank represents funds on deposit in various depositories. These balances were entirely insured by the FDIC or through the Bank Collateral Pool with the State of Tennessee.

**Note C - Commitments**

**1. Long-Term Non-cancelable Leases**

Typical School System Food Authority Funds has entered into certain non-cancelable leases, which have been approved by the local legislative body. These leases are reported as a part of the primary government's general long-term debt. However, the various school food authority funds are obligated to make the monthly payments on these leases.

City Elementary School Food Authority Fund entered into a lease agreement with Apex Corporation for the purchase of an ice cream machine. Monthly lease payments are \$400. The balance of the lease at June 30, 20X2, was \$2,360.



**Notes to the Financial Statements  
Typical School System  
for the Year Ended June 30, 20x2**

**Minimum lease payments:**

20X3	\$2,360
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Central High School Food Authority Fund entered into a lease agreement with Apex Corporation for the purchase of a freezer bin. Monthly lease payments are \$400. The balance of the lease at June 30, 20X2, was \$3,200.

**Minimum lease payments:**

20X3	\$3,200
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**Note D – Capital Assets**

Capital assets acquired by the individual school food authority funds are recorded as expenditures at the time of purchase. Title and accountability for capital assets purchased pass automatically to the board of education.

**Note E - Retirement Plan**

Certain school food authority funds' employees have elected to participate in the Tennessee Consolidated Retirement System (TCRS) via a plan administered through ABC County, Tennessee. Information related to this plan can be found in the audit report of ABC County, Tennessee.

**Note F - Prior Period Adjustment**

Central High School Food Authority fund's beginning fund balance was adjusted by \$536 in order to properly reflect fund balance at July 1, 20X1. Prior year accounts payable were overstated resulting in expenses being overstated and fund balance being understated.

**Notes to the Financial Statements  
Typical School System  
for the Year Ended June 30, 20x2**

**Note G – Risk Management**

Typical School System food authority funds are exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which ABC County, Tennessee carries commercial insurance. Settlements have not exceeded coverage for each of the past three fiscal years.

**Typical School System – School Food Authority Funds  
Schedule Of Salary Supplements  
(By School)  
For The Year Ended June 30, 20x2**

<u>School</u>	<u>Amount</u>	<u>Source of Funds<sup>1</sup></u>	<u>Proper Withholding</u>
<u>CENTRAL HIGH SCHOOL</u>			
M. Luther	\$ 50	Cafeteria	Yes
J. Piper	340	Cafeteria	Yes
J. Wesley	210	Cafeteria	Yes
G. Whitfield	85	Cafeteria	Yes
C. Brooks	55	Cafeteria	Yes
B. Falls	80	Cafeteria	Yes
J. Meadors	80	Cafeteria	Yes
C. Finney	100	Cafeteria	Yes
Total	<u>\$ 1000</u>		
<u>CENTRAL MIDDLE SCHOOL</u>			
J. Edwards	\$ 70	Cafeteria	Yes
C. Spurgeon	120	Cafeteria	Yes
B. Graham	200	Cafeteria	Yes
J. Calvin	150	Cafeteria	Yes
E. Elliott	35	Cafeteria	Yes
T. Evans	55	Cafeteria	Yes
C. Lewis	110	Cafeteria	Yes
S. Brown	40	Cafeteria	Yes
R. Sproul	40	Cafeteria	Yes
Total	<u>\$ 820</u>		
<u>CITY ELEMENTARY</u>	NONE		

<sup>1</sup> Although the salary supplements were paid through the cafeteria fund, sufficient money was paid to the fund from the appropriate restricted fund account(s) to pay for these supplements.

**Typical School System  
Activity and School Food Authority Funds  
Schedule of Fidelity Bond Coverage  
June 30, 20X2**

Company: Tennessee School Boards Liability Trust

Type of Coverage: Employee Fidelity Bond

Amount: \$150,000 each and every loss  
\$500 deductible, each occurrence

Period Covered: 07/01/X1 - 07/01/X2

Positions Covered: All Employees

**Typical School System—School Food Authority Funds  
Schedule of Expenditures of Federal Awards  
and State Financial Assistance  
For the Year Ended June 30, 20x2**

Federal Grantor/ Pass-Through Grantor	CFDA Number	Contract Number	Beginning (Accrued)		Cash		Expenditures		Ending (Accrued)	
			Deferred	Receipts	Deferred	Receipts	Deferred	Receipts	Deferred	Receipts
US Department of Agriculture (National School Lunch Program)	10.555	N/A	\$35,192	\$195,026	\$171,617	\$11,783				
US Department of Agriculture (National School Breakfast	10.553	N/A	10,334	55,840	48,871	3,365				
Noncash Assistance:										
US Department of Agriculture/TN Department of Agriculture (Commodity Assistance)	10.550	GR9707367	6,255	20,651	20,977	5,929				
<b>TOTAL FEDERAL AWARDS</b>			<b>\$51,781</b>	<b>\$271,517</b>	<b>\$241,465</b>	<b>\$21,077</b>				